

PX 658



To: Ripple Labs, Inc. Accounting Files
From: Finance Team

Executive Summary and Background

In late 2017, Ripple launched a business initiative to expend resources (people, USD, XRP) to promote the research and development of new vertical use cases that would build on the XRP Ledger, utilize XRP, the asset native to the XRP Ledger, and Interledger Protocol (“ILP”). To manage this initiative, Ripple created the Xpring department lead by Ethan Beard, SVP of Xpring.

Throughout 2018 and continued in 2019, Xpring invested in a variety of companies as part of the aforementioned business initiative. The investments took the form of equity investments (made in cash and/or XRP) and development funding.

Certain Xpring agreements include funding for product development (Coil [REDACTED] are examples), XRP payments are made upon achievement of certain development milestones. Under each agreement governing these development efforts Ripple has no active role or direct ownership in development activities or the final products or technology and has no right to future revenue streams derived from such developments. The benefit to Ripple is limited to indirect benefits arising from equity interests in the investee and overall benefits to XRP Ledger and Internet of Value (“IOV”) ecosystems.

In addition to the development funding, in limited cases, Ripple sets aside a fixed amount of XRP for an investee to pass on to other third-party developers. In these instances, the payments are paid to the partner (or other third party) only in XRP and can not be claimed for USD or any other fiat currency.

Neither the Financial Accounting Standards Board (“FASB”) nor other standard setting bodies (i.e. IASB, SEC) have released authoritative literature or other guidance specifically addressing accounting for digital assets or crypto currencies. This poses significant challenges when determining the appropriate accounting treatment for the XRP transactions as discussed above. Judgement is involved with determining the existing guidance most applicable to the accounting for digital assets.

Summary of payments in scope of this memo:

Coil Technologies Inc

Governing contract: Sales & Marketing Agreement

Compensation for Development Services: [REDACTED]

Third Party Compensation: Up to [REDACTED] paid directly to third parties

Governing contracts: Development and Integration agreement, Development Fund Agreement

Compensation for Development Services: \$ [REDACTED]

Growth Milestone payments: [REDACTED]

Third Party Compensation: Up to \$ [REDACTED] payable in XRP paid to [REDACTED] for further payments to third parties



Governing contract: Marketing Agreement

Compensation for Marketing /development: [REDACTED] payable in XRP

Relevant Accounting Guidance & Interpretations

- ASC Topic 845 Nonmonetary transactions
- ASC Topic 606 Revenue from contracts with customers (Adopted Jan 1, 2017)
- ASC Topic 610 Other Income (Adopted Jan 1, 2017)
- ASC Topic 808 Collaborative arrangement
- PWC In depth: *How to derecognize nonfinancial assets*
- EY FRD *Revenue from contracts with customers ASC 606*
- EY Technical Line: *A closer look at the guidance on derecognition of nonfinancial assets and in substance nonfinancial assets*

In addition to the XRP payments, Ripple made initial equity investments in each of the partner companies detailed above. See the separate technical memos for the accounting for these equity investments.

Coil Technologies Inc.:

- *Development Services* shall mean services related to the development, use, promotion and adoption of the Interledger Protocol, the XRP Ledger, XRP, the technologies underlying Ripple's xCurrent, xRapid and xVia products, or other technologies of interest to Ripple. ([REDACTED] XRP)
- *Marketing Services* Identify projects that will utilize the Interledger Protocol and XRP, and manage distribution of XRP set-aside to fund such third party projects ([REDACTED] XRP).

[REDACTED]

- *Integration Grant:* Earned at each completed milestone of the Development Program
 - 1st milestone: approval of the Development Program (\$ [REDACTED] payable in XRP)
 - 2nd milestone: public launch of Company Wallet with the applicable Product Commitments for the Company Wallet (\$ [REDACTED] payable in XRP) (forfeited if not completed within [REDACTED] of effective date)
 - 3rd milestone: public launch of the Company Marketplace with the applicable Product Commitments for the Company Wallet and Company Exchange (\$ [REDACTED] payable in XRP) (forfeited if not completed within [REDACTED] of the effective date)
 - 4th milestone: public launch of the first third party game on the Company Platform developed with the applicable Product Commitments for a third party game listed under Company Platform ([REDACTED] payable in XRP) (forfeited if not completed in [REDACTED] of the effective date)
- *Development Fund:* Identify game development projects using the developed technology, and identify, select, contract and manage the work and milestones of developers, to develop and market blockchain games on the Company Platform integrating the Company Marketplace, XRP, ILP and [REDACTED] (\$ [REDACTED] payable in XRP)

[REDACTED]



- *Marketing / Development services:* Payment of \$[REDACTED] in XRP triggered by certain operational milestones (Election of Board and CEO etc.) and the Initial Product launch to assist in commercialization.